THE STEEL COMPANY OF CANADA, LIMITED

ANNUAL REPORT 1967

FIFTY-EIGHTH ANNUAL REPORT (for the year ended December 31, 1967)
THE STEEL COMPANY OF CANADA, LIMITED • HAMILTON, ONTARIO

ANNUAL MEETING

The Annual and a Special General Meeting of the Shareholders of the Company will be held at the Head Office of the Company, in Hamilton, at 11:00 a.m., Eastern standard time, on Monday, April 22, 1968.

TRANSFER AGENT

MONTREAL TRUST COMPANY
Toronto, Montreal, Halifax,
Winnipeg, Edmonton, Vancouver

REGISTRAR

THE ROYAL TRUST COMPANY
Toronto, Montreal, Halifax,
Winnipeg, Edmonton, Vancouver

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COVER PICTURE
The Company's fifth blast furnace under construction at Hilton Works, Hamilton, Ontario

THE YEAR IN BRIEF	1967	1966
Sales	$512,385,565	$504,762,987
Net profit	$ 46,732,814	$ 42,743,910
Per cent of sales	9.1%	8.5%
Per share	$1.94	$1.77
Dividends and extra distribution declared	$ 20,518,194	$ 20,518,194
Per share	$ .85	$ .85
Taxes — income and all other	$ 35,622,750	$ 47,077,929
Per share	$1.48	$1.95
New investment — plants and mining properties	$ 89,211,607	$ 99,542,042
Depreciation	$ 33,057,684	$ 29,499,952
Materials and services bought and used	$231,063,000	$243,064,000
Total employment costs	$169,218,730	$151,708,467
Working capital, year end	$123,860,587	$138,560,322
Raw steel produced — net tons	3,965,975	3,793,845
Average number of employees	20,556	20,360
Number of shareholders, year end	53,340	53,017

DIRECTORS

*W. Herman Browne, Toronto	*Chairman of the Board, Moore Corporation, Limited*
Alistair M. Campbell, Montreal	*President, Sun Life Assurance Company of Canada*
J. D. Campbell, Hamilton	*Industrialist*
Harold S. Foley, Vancouver	*Industrialist*
J. Roy Gordon, New York	*Chairman of the Executive Committee, The International Nickel Company of Canada, Limited*
*Allan Graydon, Q.C., Toronto	*Counsel, Messrs. Blake, Cassels & Graydon, Barristers & Solicitors*
*H. M. Griffith, Hamilton	*President of the Company*
G. Arnold Hart, M.B.E., Montreal	*Chairman of the Board and Chief Executive Officer, Bank of Montreal*
*R. A. Laidlaw, Toronto *Resigned, February 12, 1968*	*Retired*
Frederick C. Mannix, Calgary	*Chairman of the Board, Loram Ltd.*
*D. R. McMaster, Q.C., Montreal	*Partner, Messrs. McMaster, Meighen, Minnion, Patch & Cordeau, Barristers & Solicitors*
Lucien G. Rolland, Montreal	*President and General Manager, Rolland Paper Company, Limited*
*V. W. Scully, C.M.G., Hamilton	*Chairman of the Board and Chief Executive Officer of the Company*
H. Greville Smith, C.B.E., Montreal	*President, Canadian International Investment Trust Limited*
William H. Young, Hamilton	*President and General Manager, The Hamilton Cotton Co., Ltd.*

**Member of the Executive Committee*

EXECUTIVE OFFICERS

V. W. Scully	*Chairman of the Board and Chief Executive Officer*
H. M. Griffith	*President*
H. J. Clawson	*Vice-President, Personnel*
N. J. Brown	*Vice-President and Comptroller*
R. B. Taylor	*Vice-President and Treasurer*
A. D. Fisher	*Vice-President, Planning, Engineering and Research*
J. P. Gordon	*Vice-President, Operating*
A. R. McMurrich	*Vice-President, Marketing*
J. W. Younger	*Secretary*

VICE-PRESIDENTS

Eastern Region - L. H. Doering

Manufacturing - A. J. Harris, S. W. McDermott

Sales - J. D. Allan, K. B. MacNaughton

DIRECTORS' REPORT

TO THE SHAREHOLDERS OF THE STEEL COMPANY OF CANADA, LIMITED:

The Board of Directors submits herewith the Annual Report of your Company and its subsidiaries, together with the consolidated balance sheet and related financial statements for the year ended December 31, 1967, and the report of your auditors.

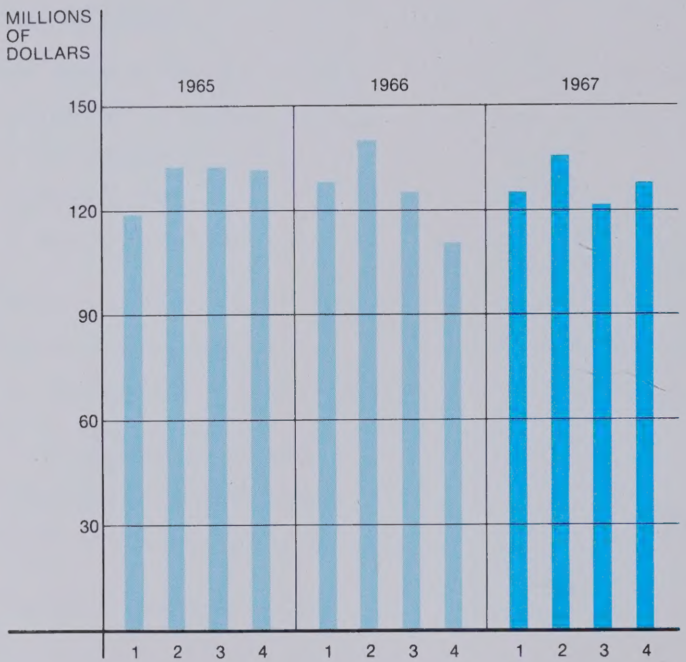
Steel demand in 1967, reflecting the uncertainty in the economy, did not regain the momentum of prior years. This situation was aggravated by widespread strikes in the construction industry which curtailed steel shipments and interrupted work on many projects. A continuing flow of low-priced imports also had an adverse effect on domestic steel output. In the second half of the year, however, your Company obtained substantial orders for large-diameter pipe which offset reduced demand for other products. Accordingly, production and sales for the full year were moderately higher than in 1966, and, despite sharp advances in certain elements of cost, operating profit was maintained virtually at the level of the previous year. However, notwithstanding higher depreciation charges and reduced investment income, net profit recorded an improvement because of an increased amount of tax-exempt income arising from the operation of the Scully Mine.

PRODUCTION AND SALES

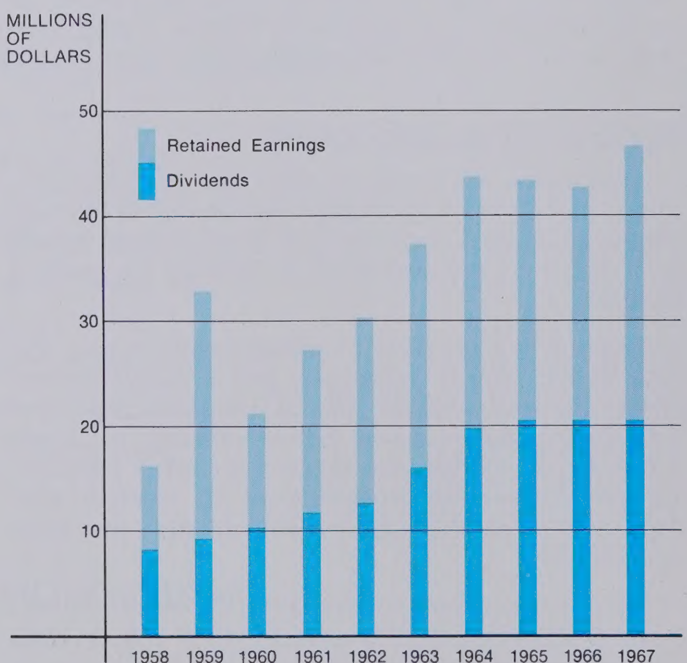
Production of raw steel in 1967 was 3,965,975 tons, a new record and 4.5% higher than the 3,793,845 tons produced in 1966. The increase was achieved largely as a result of improvements in existing steelmaking facilities.

Although a high level of primary steel output was maintained, several processing and finishing departments at Hilton Works and at the fabricating and subsidiary plants operated below capacity at various times due to the uneven demand for many products. Customers generally endeavoured to operate with minimum inventories and scheduled their purchases accordingly.

Sales of all products totalled $512,385,565, compared with $504,762,987 in 1966 and $516,405,960 in 1965. The increase over 1966 occurred in the fourth quarter and included the first shipments of large-diameter pipe for the Great Lakes section of the expanded



Consolidated Net Sales by Quarters



Net Profits and Dividends, 1958-1967

Trans-Canada Pipe Lines system. The bulk of this record order of $38,000,000 will be delivered in 1968.

The volume of export sales increased as a result of vigorous efforts to supplement lagging domestic demand.

PROFITS, COSTS AND PRICES

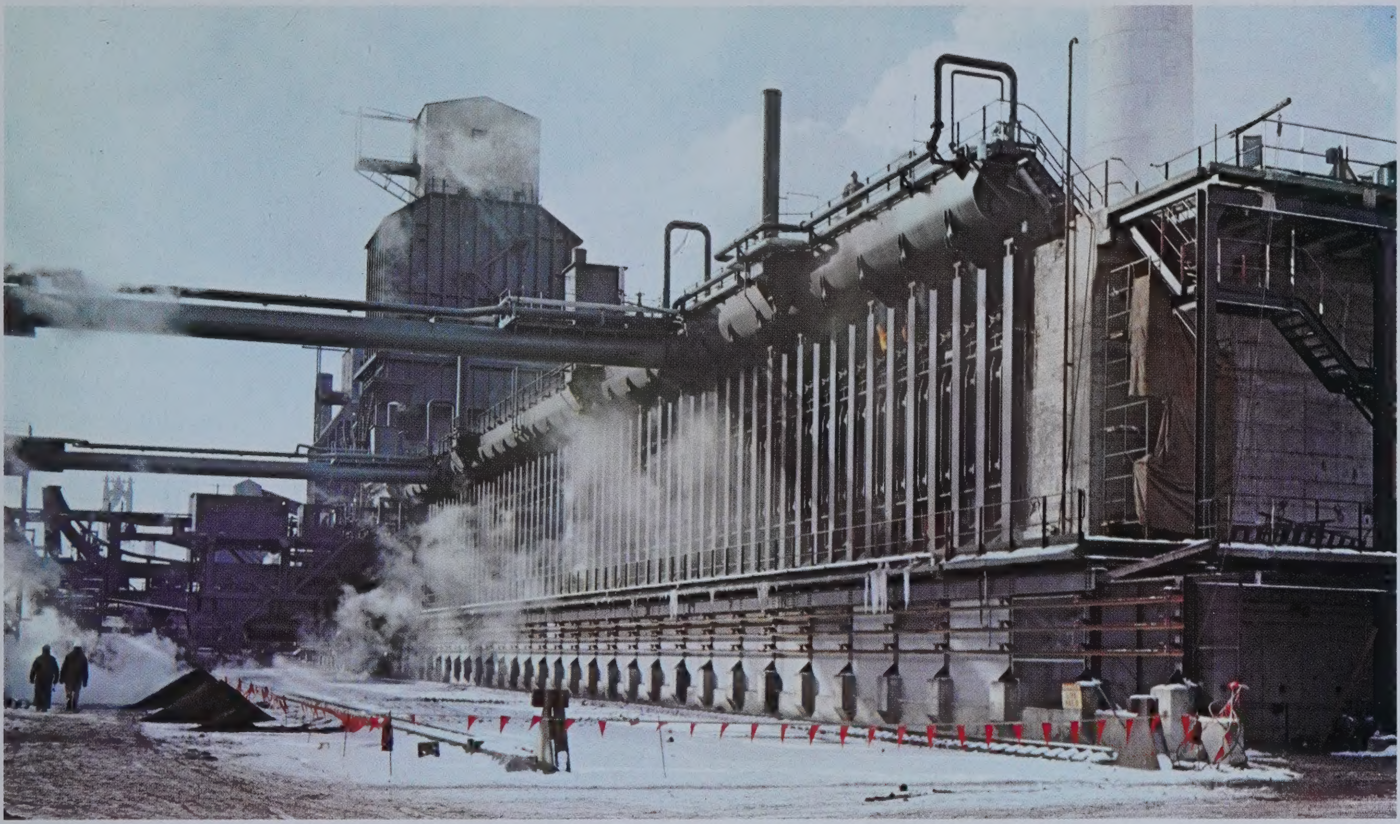
Consolidated net profit for the year was the highest in the Company's history and amounted to $46,732,814 or $1.94 a share, compared with $42,743,910 or $1.77 a share in 1966. Reflecting this improvement, the ratios of net profit to sales and to shareholders' equity respectively were 9.1% and 10.5% in 1967 against 8.5% and 10.1% in 1966.

As previously stated, the higher level of net profit resulted mainly from the increase in the amount of tax-exempt income earned in the year. 1967 was the first full year of the three-year period of exemption from tax (commencing April 1, 1966) of income attributable to the Scully Mine. Without this exempt income, which represents part of the return anticipated from the Company's large capital investment in the project, the escalation of costs and the reduction in investment income would have led to a decrease in net earnings. Wages, salaries and employee benefits, especially the amount provided for pensions, have risen very sharply. These increases, coupled with advances in other expenses, including depreciation, have resulted in higher unit costs of production. Notwithstanding substantial investments in new and improved facilities, such increases have exceeded the benefits currently obtainable through advances in productivity.

With the object of recovering, in part, these higher costs, the Company raised the prices of some products early in the year. To help contain the cost/price spiral the adjustments were minimal, and subsequently the anticipated revenues were diminished by the need to reduce prices of several product lines to meet competition. Every effort is being made to check rising unit costs in order that the Company may remain competitive at home and abroad and thereby preserve its markets, earn reasonable profits and help provide jobs for an increasing work force.

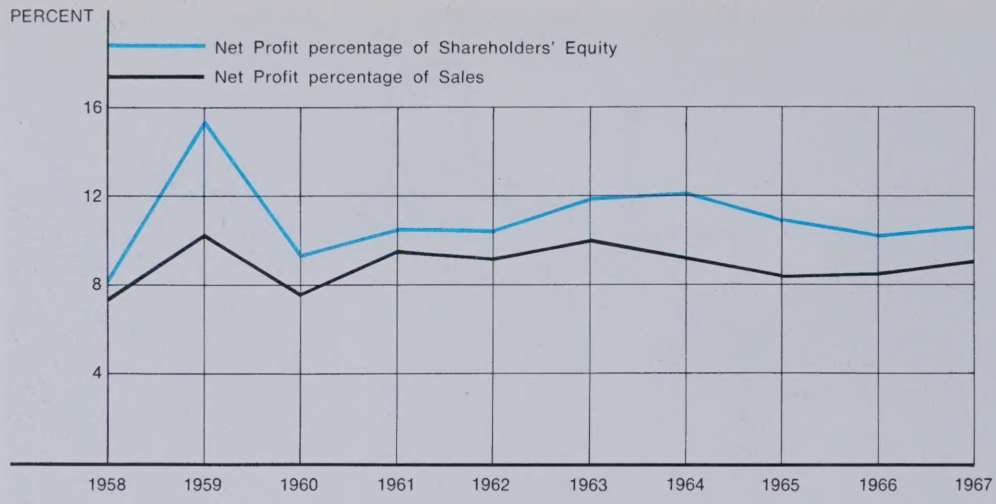
DIVIDENDS

Four quarterly dividends of 20 cents a share were declared in 1967 and an extra distribution of 5 cents a share was declared in December, bringing the total



The new coke oven battery contains 73 large-size ovens and consumes up to 3,000 tons of coal a day to produce up to 2,100 tons of coke and 30 million cubic feet of gas.

Pushing coke from one of the new ovens at the end of the 16-hour baking period.



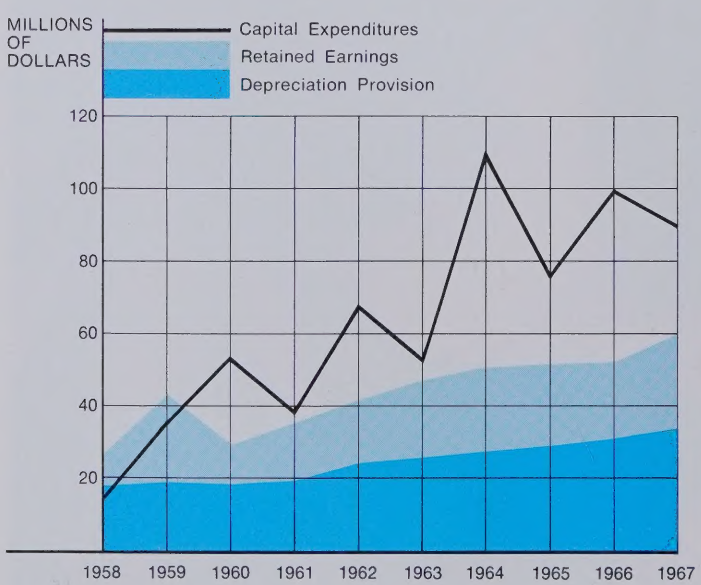
Return on Sales and Shareholders' Equity, 1958-1967

distribution to 85 cents a share, the same as in 1966. The total amount declared in each year was $20,518,194.

Mineral income included in the Company's earnings for 1966 was sufficient to entitle Canadian shareholders, for income tax purposes, to deduct a 20% depletion allowance from dividends declared in 1967. These are the dividends paid May 1, August 1, and November 1 in 1967, and the dividend and extra distribution paid February 1, 1968.

FINANCIAL

Capital expenditures amounted to $89,211,607 in 1967, compared with $99,542,042 in 1966. In the past five years, capital outlays have exceeded $400 million, almost doubling in the period the Company's gross investment in fixed assets. At the year end, the amount still to be spent on approved capital projects was $32,000,000. This figure was considerably less than the corresponding commitment of $112,000,000 at the end of 1966, the reduction indicating the completion of the latest program of expansion.



Capital Expenditures, Depreciation and Retained Earnings, 1958-1967

Working capital decreased to $123,860,587 at December 31, 1967 from $138,560,322 the year previously, as detailed in the Consolidated Statement of Source and Use of Funds on page 17. Bank loans were arranged to help provide the large amount of cash required for the capital expansion program, the total of such loans outstanding at December 31 being $13,500,000. The ratio of current assets to current liabilities was 2.3 to 1. Accounts receivable increased in comparison with the 1966 figure as a result of the greater volume of business in the closing months of the year. The increase in inventories consisted mainly of raw materials for the new coke ovens and blast furnace, and semi-finished steel for the large pipeline orders in process.

Investments at cost in associated companies not consolidated amounted to $20,397,593 at December 31, 1967, compared with $20,002,709 at December 31, 1966. Additional advances were made to support expanded operations in those companies but no new interests were acquired.

CAPITAL STRUCTURE

On February 12, 1968, options under the Company's Stock Option Policy were granted to senior officers to purchase 58,000 common shares at $18.75 per share, the closing bid price on the Toronto Stock Exchange on the last business day preceding the date on which the options were granted. Options may be exercised at any time after the first year up to the end of the tenth year following the date of the grant.

Also on February 12, 1968, your Directors approved an Employees' Stock Purchase Plan whereby certain salaried employees were given the opportunity to subscribe for common shares of the Company. Individual subscriptions were limited in proportion to annual salaries and the price was set at $16.75 per share, which was approximately 89% of the closing market price of the stock on the date the plan was approved. Pursuant to the plan, 1,091 employees subscribed for 189,795 shares for which they paid an aggregate consideration of $3,179,066. The allotment of these shares on March 1, 1968, brought the paid up capital of your Company to $131,277,952 represented by 24,328,847 common shares without nominal or par value.

Officers to whom options were granted were not eligible to participate in the Stock Purchase Plan.

A proposal to amalgamate the Company and its wholly-owned subsidiaries, Page-Hersey Tubes, Limited, Premier Steel Mills Ltd. and The Canadian Drawn Steel Company, Limited, under the provisions of Section 128A of the Canada Corporations Act will be submitted to the shareholders at the Annual and Special General Meeting. The amalgamation of these companies will greatly simplify administrative and accounting procedures. The amalgamation plan provides that the authorized capital of the amalgamated company shall consist of 35,000,000 common shares without nominal or par value, an increase of 7,000,000 common shares over the present authorized capital of the Company. This increase will restore the relationship of unissued to issued shares established in 1962. Your Directors have no plans to issue additional shares at this time.

PLANTS

In 1967, the expansion program at Hilton Works, including the new coke ovens, blast furnace and continuous galvanizing line, was held up for nearly four months by strikes in the construction industry. The costly delay was one of the most expensive of the work stoppages which too often afflict the construction industry and interfere with building projects. However, all major units were in operation in the early weeks of 1968, bringing to completion the capital spending programs undertaken in recent years to improve and enlarge plants and properties.

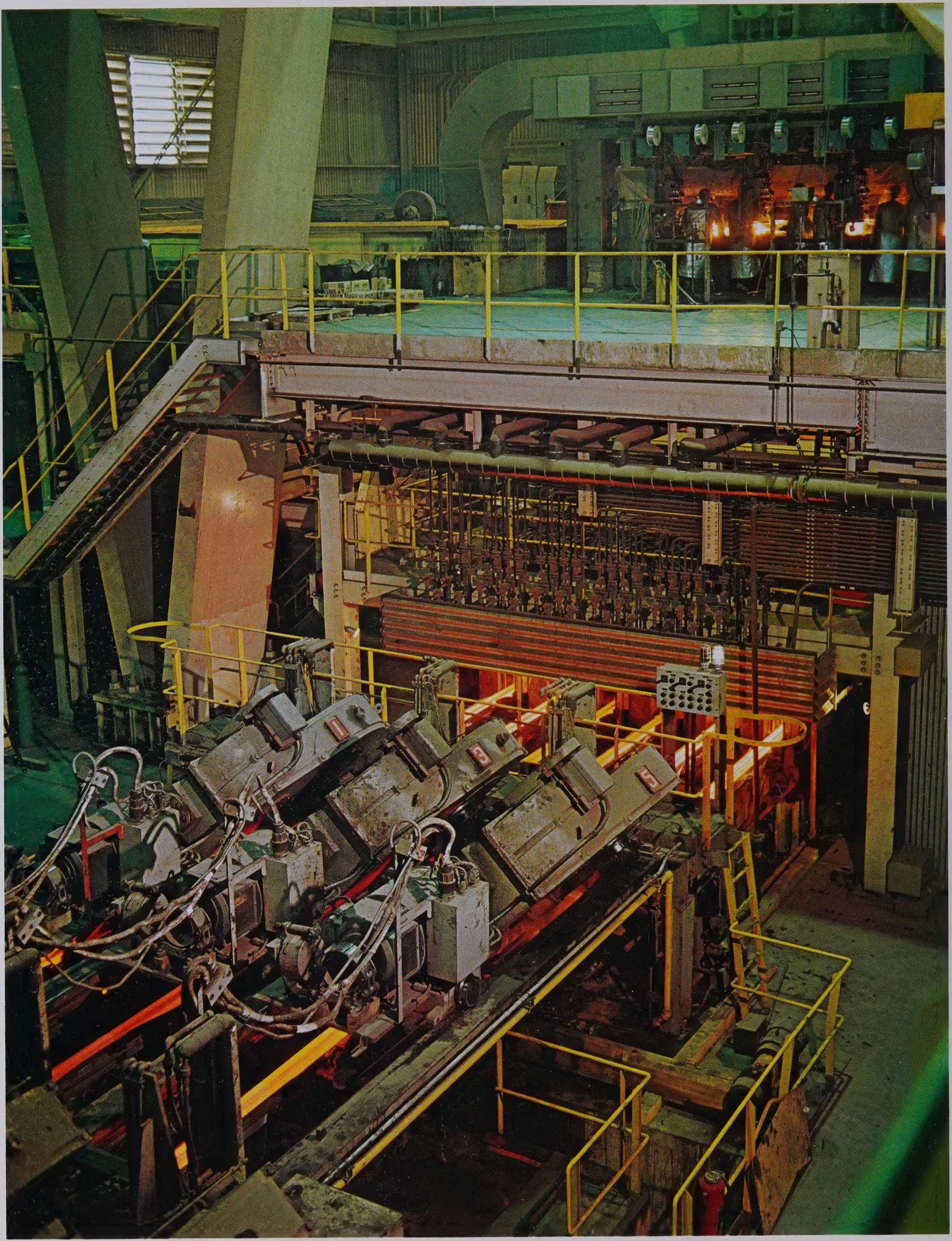
Hilton Works

- The additional battery of coke ovens to supply coke for the new blast furnace was completed in January 1968. The battery consists of 73 ovens — the largest of their kind to be installed in a North American steel mill — capable of producing 2,100 tons of coke per day. An associated coal chemicals plant will process 30 million cubic feet of gas from the battery daily, recovering ammonia, light oil and tar.
- Blast furnace No. 5 was blown in on January 22, 1968. This new unit increases pig iron capacity by 50% or 3,500 tons a day, and is one of the largest and most modern blast furnaces in North America. The additional pig iron is required to meet steelmaking needs, to replace purchased scrap and to improve the operating efficiency of the Company's open hearth furnaces.
- The third continuous galvanizing line was also brought into operation in January 1968, adding 160,000 tons to Stelco's annual sheet galvanizing capacity. The new line will produce light gauge galvanized coils up to 60 inches wide with superior drawing qualities.
- Several related projects to provide additional capacity in open hearth steelmaking were completed during the year. Other programs for raising the production of steel slabs, plates and skelp were under way and will be completed in the spring. These include additional soaking pits, slab yard extensions, plate mill shipping facilities and related items.

Both the new coke oven and blast furnace installations incorporate equipment of the latest type for the abatement of air and water contamination. These facilities, together with an additional precipitator to be installed on the open hearth furnaces and the conversion of No. 2 pickle line from sulphuric to hydrochloric acid, are in keeping with a continuing policy of air and water quality control which so far involves expenditures of approximately $16,000,000.

Fabricating Plants and Subsidiaries

- A second electro-galvanizing line for wire was completed at Dominion Works in Lachine, Quebec. The new equipment will relieve the overloading of galvanizing facilities resulting from growth in the demand for high quality galvanized wire.



The continuous casting machine in operation at Hilton Works. Six strands of molten steel are poured through oscillating moulds to solidify in billet form.

- Wire drawing and wire galvanizing facilities were expanded at Canada Works, and additional wire drawing, nail making and packing equipment was installed at Parkdale Works.
- Improvements were made to the shipping facilities at Frost Works to better serve customer needs and, at Gananoque Works, additional equipment was installed for the production of forgings and storage facilities were extended.
- At the end of the year other installations in progress included a billet reheating furnace at Premier Works in Edmonton and new equipment to produce structural tubing at Page-Hersey Works in Welland.

Long Range Planning

The Company's planning staff, with the assistance of professional consultants, is currently engaged in broad studies of future development needs and opportunities. Investigations being conducted include commercial research and market surveys, facilities requirements, plant locations, and diversification possibilities. Specific attention is being given to future requirements for the production of billets and wide hot rolled sheets.

Research Centre

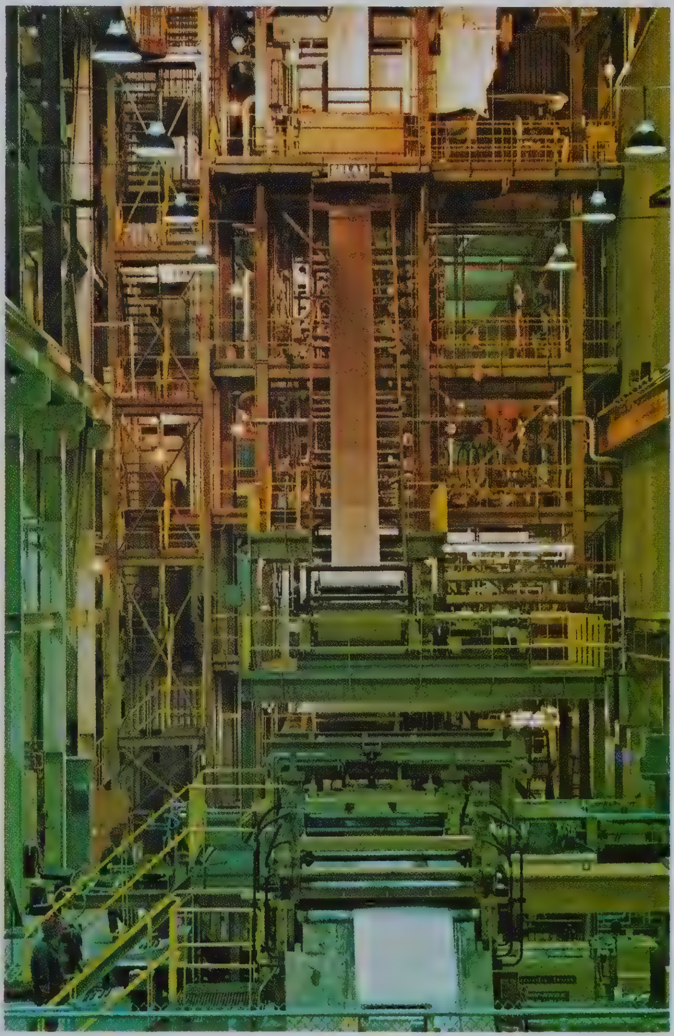
The Stelco Research Centre in Burlington, Ontario, was officially opened on June 8, 1967, with the Honourable C. M. Drury, Q.C., Minister of Industry and Defence Production, Ottawa, and the Honourable Stanley J. Randall, Minister of Economics and Development for the Province of Ontario, in attendance. The Centre has been visited by many representatives from the scientific and technical branches of government and industry and has been generally acclaimed as an outstanding facility for the pursuit of metallurgical knowledge and technological improvement.

Research studies conducted in the past year have included the development of a new electric arc steelmaking technique known as "Continuous Charging" and the successful production, on a trial basis, of a chemically-treated steel to replace tinplate for certain types of containers. Other studies in hand include the development of new high strength steels and new process automation techniques. In addition, joint research is being undertaken in conjunction with various industrial and research organizations.

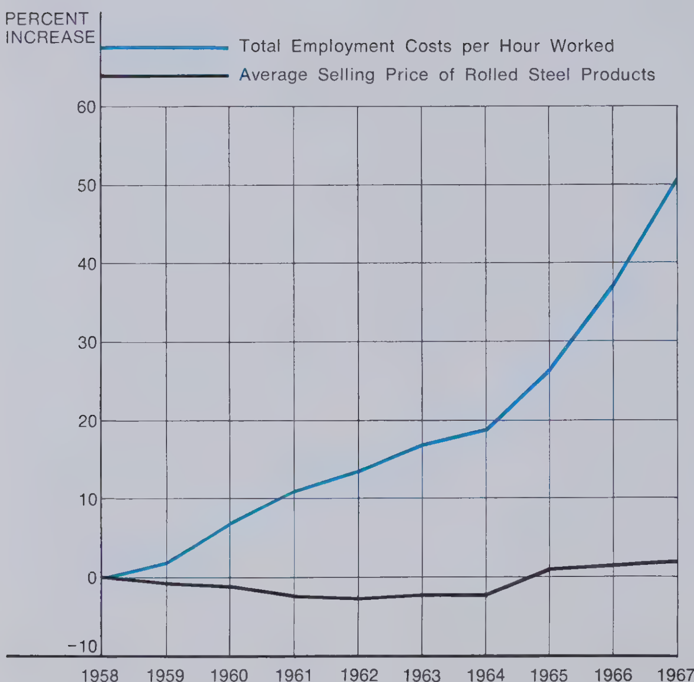
MINING

Throughout 1967, development of the Company's Griffith Mine and related iron ore pelletizing facilities in the Red Lake area of northwestern Ontario proceeded as planned. The initial production of pellets began in February 1968, and operations are expected to reach commercial levels by the end of this year. Annual capacity is rated at 1,500,000 tons of pellets. With the cooperation of Ontario Housing Corporation, housing for employees is being provided at Ear Falls.

Extension of the facilities at the Scully Mine, Labrador, Newfoundland, and of the associated pellet plant



The entry end of the new continuous galvanizing line at Hilton Works. The sheet steel rises to a height of 100 feet and travels approximately 2,500 feet during the coating process.



Employment Costs and Selling Prices Percentage Increases, 1958-1967

at Pointe Noire, Quebec, to raise the output at these properties from approximately 5,000,000 to 6,000,000 tons of pellets a year, was begun in 1967 and will be completed in mid-1968. Your Company's interest in the two projects, now combined in the Wabush Mines joint venture, is 25.6%.

Following completion of the expansion program at Erie Mining Company in Minnesota, annual capacity was increased from 7,500,000 to 10,300,000 tons of pellets. Stelco's interest in Erie Mining is 10%.

The Company's new wholly-owned coal mining development in Kentucky, the Chisholm Mine, commenced production in 1967, and by the end of the year output approached the level of 1,000,000 tons annually.

Operations at the other producing mines were maintained at efficient rates and provided adequate supplies of coal and ore for steelmaking needs. The ore body of the West Hill Mine in Minnesota being virtually exhausted, operations were terminated and the property sold.

EMPLOYEES

Satisfactory relationships between the Company and its employees continued throughout 1967. Average employment for the year was 20,556, up 1.0% from the average in 1966. Total employment costs, summarized below, were $169,218,730, or 11.5% higher than in the previous year.

WAGES AND SALARIES	
For time worked	$138,848,541
For vacation and statutory holidays not worked	9,686,034
	$148,534,575
SUPPLEMENTARY EMPLOYEE BENEFITS	
Pension fund provisions	$ 12,084,522
Group insurance plans and other benefits	6,465,025
Unemployment insurance and workmen's compensation	2,134,608
	$ 20,684,155
TOTAL EMPLOYMENT COSTS . . .	$169,218,730
AVERAGE PER EMPLOYEE	$ 8,232

Under the terms of current labour agreements, wage rates were increased by 8 cents an hour on August 1, 1967, and the increment between job classes was raised by ½ cent an hour, the total of the two adjustments amounting, on the average, to more than 13 cents per hour worked. Appropriate adjustments were also made for salaried employees to maintain salaries in equitable relationship with prevailing industry and community levels.

Early in 1967, negotiations were concluded with the Unions representing the employees of the pipe plants in Welland, Ontario and Camrose, Alberta, and at the Premier Steel plants in Edmonton. The settlements followed the pattern established at Hilton Works in 1966.

Pensions

Provision for payments to the pension trust funds and contributions to the Canada and Quebec Pension Plans amounted to $12,084,522, compared with $5,058,398 in 1966. The increase reflects added costs arising from: (1) the effect for a full year of the

revisions, effective August 1, 1966, in the pension plan for bargaining unit employees of the parent company, and (2) revisions early in 1967 in the contributory retirement plan for salaried employees and in the pension plans for bargaining unit employees at subsidiary companies. These changes are in keeping with current trends toward improvements in pensions, earlier retirement and the provision of widows' benefits.

The total unfunded past service liability at December 31, 1967, for all plans is estimated at approximately $69,000,000, an increase of $21,000,000 over the liability at the end of the previous year. The increase results from the revisions in the contributory retirement plan and the pension plans for subsidiary companies.

Total payments to the pension trust funds since the inception of the first pension plan in 1920 amounted to $48,103,805. In 1967, 438 employees retired, making a total of 1,910 former employees receiving pensions under the respective plans.

MARKETS

The forces of competition increase each year. World steelmaking capacity now appears to exceed demand, and many countries are seeking outlets in Canada for their lower-priced steel. The imports, in large part, are products which compete with Canadian production in contrast with the situation a few years ago when steel imports consisted largely of product types and sizes not available in Canada. Domestic capacity for the production of steel and its products is also growing steadily, and in a number of Stelco's product lines, is already in excess of demand. Despite these factors, however, the Company's share of the total Canadian steel market increased in 1967 due largely to the volume of orders for major pipeline projects.

To meet the needs of customers and to concentrate marketing strengths in those areas where there is potential for the development of steel products, the Company's marketing function is being reorganized. Improvements have been made in services to customers and in sales training. New uses for steel are being actively sought, with particular emphasis on the use of steel in homes. It becomes increasingly obvious that ways must be found to reduce the costs of residential construction, particularly on-site labour costs, and the Company's sales engineers are conducting an intensive study of the problem, covering trends in construction methods in both North America and Europe.

The program to assist customers in the creation of markets for their products is continuing successfully. Soft drinks in cans gained a larger share of the beverage market in 1967. Sales of painted galvanized sheet steel (Stelcolour) for siding on industrial and commercial buildings increased dramatically, and the use of this product for residential siding is being energetically promoted in consumer markets in Ontario and Quebec.

Studies of the potential effects on the Company of the Kennedy Round of tariff negotiations, concluded in 1967 under the General Agreement on Tariffs and Trade, have indicated that the step-by-step downward revision of most-favoured-nation tariffs will make access to the Canadian steel market easier for offshore producers. New rules conforming to an international code on anti-dumping practices under the agreement could disrupt the Canadian steel market if dump prices and material injury were not promptly detected and effectively dealt with. Your Company has expressed to the Government its concern regarding the need for positive measures to prevent dumping into Canada.

TAXATION

In 1967, two Reports by government-appointed bodies studying Canada's tax structure were made public and have been studied in detail from the standpoint of the Company, the steel industry, and Canadian business generally.

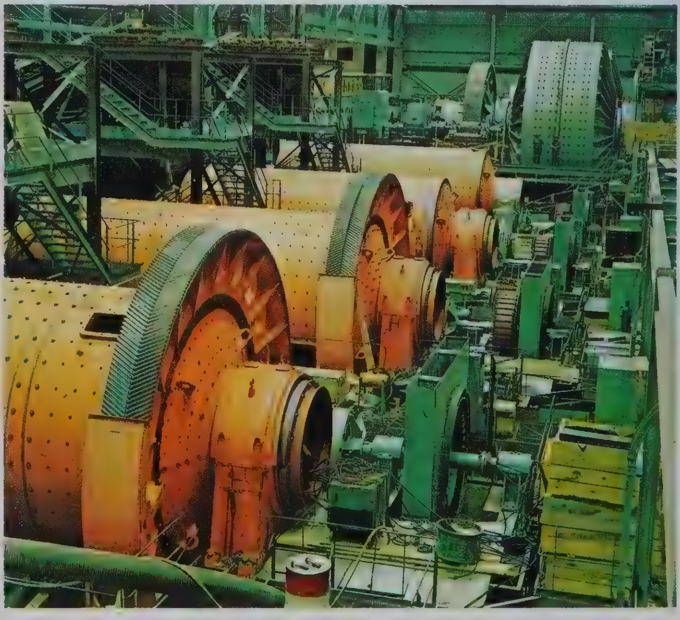
The Royal Commission on Taxation (the Carter Commission) proposed sweeping changes in the tax law which, in the Company's opinion, would hinder the expansion of the economy and make the provision of adequate employment opportunities for a growing work force more difficult. Adoption of the proposals would seriously impair the ability of the steel industry to earn a reasonable rate of return on investment, maintain price stability and, at the same time, continue to pay wage and salary rates competitive with other industries. In particular, acceptance by the Government of the Commission's recommendations regarding taxation of the mining industry would make iron ore developments such as the Scully and the Griffith Mines economically impracticable.

The Report of the Ontario Committee on Taxation (the Smith Committee) also contained proposals that could have a serious adverse effect on the economics of investment in ore mining properties.

THE GRIFFITH MINE. A general view of the concentrating and pelletizing plant with the load-out bin in the foreground.

One of the 32-foot-diameter grinding mills which will break down chunks of iron ore to ¼" pieces.

These pebble mills, 14 feet in diameter and 28 feet long, will further reduce the ore to the consistency of flour.



The Company's views on the recommendations contained in both Reports have been presented to the respective governments, and in the case of the Carter Report, have been followed by a personal discussion with the Minister of Finance. The following quotation from the brief to the federal Government indicates the Company's general approach to the philosophy of the Carter Commission:

"Rather than impose a completely new and disruptive set of ground rules on the economy, we believe that it is imperative for the Government to aim at creating an economic climate in Canada that would encourage the development of Canadian industry. This is particularly important at a time when drastic changes resulting from the Kennedy Round of tariff reductions are imminent."

It is encouraging to note that public statements made by the Minister of Finance and others in the Government suggest that their general views are not dissimilar to those of the Company.

EXPO 67 — Steel Pavilion

Your Company's participation in Expo 67 was amply rewarded by the opportunity it afforded to welcome so many shareholders and others — over a million in all — to the steel industry's pavilion. Apart from the pavilion, Stelco was a major supplier of steel to the great exposition and to many related projects in the Montreal area.

SHAREHOLDERS

The number of Stelco shareholders at December 31, 1967, was 53,340, compared with 53,017 at the end of 1966. Residents of Canada held approximately 94% of the shares outstanding, the average individual holding being 453 shares.

ORGANIZATION

Effective January 1, 1968, Mr. J. D. Allan, formerly Vice-President, Eastern Region, was appointed Vice-President, Market Development, with responsibility for the development of new outlets for steel, growth of the Company's market participation and relationships with the major steel consuming industries. Mr. L. H. Doering was appointed Vice-President, Eastern Region, succeeding Mr. Allan, and with responsibility for the coordination of all Company functions in eastern Canada. Mr. K. B. MacNaughton, formerly Vice-President responsible for sales of rolling mill products, was appointed Vice-President, Product Sales, with responsibility for the administration of all product sales and order service functions throughout the Company.

DIRECTORS

Your Directors regret to announce the resignation as Directors of your Company of Mr. Frederick Johnson on December 11, 1967 and of Mr. R. A. Laidlaw on February 12, 1968. Mr. Johnson and Mr. Laidlaw were the two senior members of the Board, having served as Directors for twenty and sixteen years respectively. Your Directors take this opportunity of acknowledging gratefully the wise counsel and keen interest of their former colleagues during a period of rapid change and growth.

The vacancies on the Board have been filled by the election on December 11, 1967, of Mr. Frederick C. Mannix, Chairman of the Board, Loram Ltd., and on February 12, 1968, of Mr. J. Douglas Gibson, O.B.E., Financial and Economic Consultant.

★ ★ ★

The Board expresses its appreciation for the loyal and efficient efforts of management and employees in contributing to the success and progress of the Company in the past year. The continuing interest and support of shareholders, customers and suppliers are also appreciated.

Submitted on behalf of the Board of Directors.

V. W. SCULLY,
Chairman of the Board

H. M. GRIFFITH,
President

Hamilton, Canada
March 1, 1968.

Consolidated Statement of Income and Retained Earnings

	Year 1967	Year 1966
Revenue		
Net sales	$512,385,565	$504,762,987
Income from short-term investments	650,609	2,462,170
	$513,036,174	$507,225,157
Expense		
Cost of sales, exclusive of the following items	$405,496,637	$398,165,780
Provision for depreciation (Note 5)	33,057,684	29,499,952
Interest on long-term debt	3,392,214	3,764,448
Provision for income taxes — current (Note 10)	8,369,825	5,977,067
— deferred	15,987,000	27,074,000
	$466,303,360	$464,481,247
Net Profit for the Year	$ 46,732,814	$ 42,743,910
(Per share: 1967 — $1.94, 1966 — $1.77)		
Retained Earnings at beginning of year	304,629,505	282,403,789
	$351,362,319	$325,147,699
Deduct		
Dividends declared — 80 cents per share	$ 19,311,242	$ 19,311,242
Extra distribution — 5 cents per share	1,206,952	1,206,952
	$ 20,518,194	$ 20,518,194
Retained Earnings at end of year	$330,844,125	$304,629,505

Consolidated Balance Sheet

	December 31, 1967	December 31, 1966
Assets		
Current Assets		
Cash	$ 2,775,251	$ 9,601,319
Short-term investments, at cost (approximates market value)	3,927,361	25,968,006
Accounts receivable	83,194,774	69,341,211
Inventories, at the lower of cost or market (Note 6)	124,962,657	114,176,797
Prepaid expenses	1,080,280	1,458,674
Total Current Assets	$215,940,323	$220,546,007
Special Refundable Tax	$ 4,079,460	$ 3,327,524
Investments in Associated Companies, at cost (Note 7)	$ 20,397,593	$ 20,002,709
Fixed Assets		
Plants and properties, at cost	$933,305,292	$846,692,975
Less: Accumulated depreciation	413,487,921	382,380,139
	$519,817,371	$464,312,836
Total	$760,234,747	$708,189,076
Liabilities		
Current Liabilities		
Bank loans	$ 13,500,000	—
Accounts payable and accrued	61,827,643	$ 58,135,910
Provision for income and other taxes	10,717,330	3,404,012
Dividend and extra distribution payable	6,034,763	6,034,763
Current portion of long-term debt	—	14,411,000
Total Current Liabilities	$ 92,079,736	$ 81,985,685
Long-term Debt (Note 2)	59,476,000	59,726,000
Provision for Deferred Income Taxes	149,736,000	133,749,000
	$301,291,736	$275,460,685
Shareholders' Equity		
Common Shares — no par value (Note 9)		
Authorized — 28,000,000 shares		
Issued — 24,139,052 shares	$128,098,886	$128,098,886
Retained Earnings — in use in the business	330,844,125	304,629,505
Total Shareholders' Equity	$458,943,011	$432,728,391
Total	$760,234,747	$708,189,076

Signed on behalf of the Board: V. W. SCULLY, Director H. M. GRIFFITH, Director

Notes to Consolidated Financial Statements, December 31, 1967

1. It is estimated that $32,000,000 will be required to complete approved capital programs.

2. Long-term debt (less current portion) consists of the following:

	1967	1966
The Steel Company of Canada, Limited		
5½% Sinking fund debentures due May 1, 1990 .... (Annual sinking fund requirement $1,250,000 commencing May 1, 1970)	$50,000,000	$50,000,000
Page-Hersey Tubes, Limited		
4¼% Sinking fund debentures due April 1, 1971 .... (Annual sinking fund requirement $400,000, fulfilled to April 1, 1968)	2,324,000	2,564,000
5½% Sinking fund debentures due April 1, 1983 .... (Annual sinking fund requirement $350,000 — 1968 through 1974; $400,000 — 1975 through 1982: fulfilled to April 1, 1968)	7,152,000	7,162,000
	$59,476,000	$59,726,000

3. The Company, as a shareholder of Erie Mining Company, is entitled to 10% of Erie's production of iron ore pellets, for which it is committed to pay 10% of Erie's costs, including a minimum annual charge of $2,000,000 for depreciation to cover the repayment of 10% of Erie's long-term debt.

4. Accounts originating in foreign currencies have been converted generally at current rates of exchange except for plant and property values which have been converted at rates in effect at the date of acquisition.

5. Depreciation has been provided at rates averaging approximately 5% of the cost of depreciable assets.

6. In determining the cost of the major portion of its inventories, the Company follows the last-in, first-out method, the balance being determined at average cost.

7. The cost of investments in associated companies amounted to $20,397,593 at December 31, 1967, at which date the net equity value of the investments, as recorded in the accounts of the associated companies, was $24,210,898.

8. Pension costs charged against income in the year include payments made to trust funds in respect of past service and amounts payable in respect of current service. Past service costs are being funded over periods not exceeding 25 years. The total unfunded past service liability at December 31, 1967, is estimated at approximately $69,000,000.

9. In accordance with a Stock Option Policy adopted in 1965, 280,000 shares of the capital stock of the Company are reserved for stock options. At December 31, 1967, options were outstanding in respect of 132,900 shares as follows: 124,400 shares at $25.50 exercisable to December 13, 1975, and 8,500 shares at $19.75 exercisable to December 12, 1976. Included in the above are 69,400 shares under option to officers.

10. Income from The Scully Mine is exempt from income tax for a period of thirty-six months commencing April 1, 1966. For the year 1967, the effect of this exemption was to reduce the provision for income taxes by approximately $6,400,000.

11. For the year ended December 31, 1967, the total remuneration received from the Company and its subsidiaries by directors and senior officers was $908,354, including $345,854 received by directors as directors or officers.

Consolidated Statement of Source and Use of Funds

	Year 1967	Year 1966
Source of Funds		
From operations:		
Net profit for the year	$ 46,732,814	$ 42,743,910
Non-cash charges for:		
— depreciation	33,057,684	29,499,952
— deferred income tax	15,987,000	27,074,000
	$ 95,777,498	$ 99,317,862
Sundry items (net)	254,504	1,029,188
	$ 96,032,002	$100,347,050
Use of Funds		
Expenditures for plants and mining properties	$ 88,816,723	$ 98,551,229
Investments in associated companies (net)	394,884	990,813
Reduction of long-term debt	250,000	18,754,000
Dividends and extra distribution declared	20,518,194	20,518,194
Special refundable tax	751,936	3,327,524
	$110,731,737	$142,141,760
Decrease in Working Capital	$ 14,699,735	$ 41,794,710
Working capital at beginning of year	138,560,322	180,355,032
Working capital at end of year	$123,860,587	$138,560,322

AUDITORS' REPORT

To The Shareholders,
The Steel Company of Canada, Limited.

We have examined the consolidated balance sheet of The Steel Company of Canada, Limited and its subsidiary companies at December 31, 1967 and the consolidated statements of income and retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies at December 31, 1967 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 9, 1968.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants

TEN YEAR STATISTICAL SUMMARY

Dollars in thousands except as indicated*

	1967	1966	1965
OPERATIONS (thousands of net tons)			
Raw steel produced	3,966	3,794	3,846
Steel processed(2)	4,087	4,086	4,137
INCOME AND RELATED DATA			
Sales	$512,386	504,763	516,406
Depreciation	$ 33,058	29,500	27,594
Income taxes	$ 24,357	33,051	38,808
Net profit	$ 46,733	42,744	43,454
Per share(3)*	$ 1.94	1.77	1.80
Per cent of sales	9.1%	8.5	8.4
Per cent of shareholders' equity	10.5%	10.1	10.9
Dividends (including extra distributions)	$ 20,518	20,518	20,518
Per share(3)*	$ .85	.85	.85
CAPITAL EXPENDITURES	$ 89,212	99,542	75,540
FINANCIAL POSITION, YEAR END			
Working capital	$123,861	138,560	180,355
Plants and properties — net	$519,817	464,313	396,291
Shareholders' equity	$458,943	432,728	410,503
EMPLOYMENT			
Average number of employees	20,556	20,360	20,262
Total employment costs	$169,219	151,708	143,179
Employees' average weekly earnings*	$ 138.65	130.98	125.13
NUMBER OF SHAREHOLDERS, YEAR END	53,340	53,017	46,597

(1) *1958 operations interrupted by strike — 86 days.*
(2) *Includes steel purchased and steel received from customers for conversion.*
(3) *Adjusted for subdivision of shares in 1962.*

1964	1963	1962	1961	1960	1959	1958[1]
3,479	3,110	2,779	2,445	2,152	2,438	1,668
3,884	3,122	2,768	2,428	2,336	2,687	1,686
477,823	370,989	332,205	288,356	281,967	321,544	225,179
26,003	24,081	22,631	18,922	17,433	18,804	17,376
33,791	31,680	26,350	22,287	17,278	28,824	15,294
43,630	37,095	30,299	27,378	21,356	32,878	16,371
1.91	1.82	1.50	1.43	1.23	1.89	.95
9.1	10.0	9.1	9.5	7.6	10.2	7.3
12.0	11.8	10.2	10.3	9.1	15.2	8.2
19,752	15,723	12,653	11,712	10,412	9,103	8,206
.85	.77½	.62½	.60	.60	.52½	.47½
109,306	52,236	67,036	38,754	53,290	35,123	14,395
122,695	125,348	118,681	134,895	95,139	115,842	104,357
350,863	234,035	206,530	165,759	147,652	117,197	104,811
388,578	326,437	302,721	290,256	240,141	228,925	200,012
18,584	16,599	15,692	14,432	14,600	15,255	13,737
123,864	107,386	98,464	87,942	84,690	86,938	64,744
121.33	117.00	114.71	111.47	105.57	104.50	98.72
40,973	30,297	25,746	18,259	15,734	15,403	15,226

OFFICES AND PLANTS

HEAD OFFICE
Hamilton, Ontario, Canada

GENERAL OFFICES
Hamilton, Ontario, Wilcox Street
Montreal, Quebec, 525 Dominion Street

SALES OFFICES
Hamilton, Ontario
Montreal, Quebec
Calgary, Alberta
Edmonton, Alberta
Halifax, Nova Scotia
Quebec, Quebec
Regina, Saskatchewan
Saint John, New Brunswick
St. John's, Newfoundland
Toronto, Ontario
Vancouver, British Columbia
Windsor, Ontario
Winnipeg, Manitoba

PLANTS

ONTARIO

Hamilton
- Hilton Works
- Ontario Works
- Canada Works
- Parkdale Works
- Frost Works
- The Canadian Drawn Steel Company, Limited

Brantford - Brantford Works
Toronto - Swansea Works
Gananoque - Gananoque Works
Welland
- Page-Hersey Works
- Welland Tube Works

Ingersoll - Chemical Lime Works

QUEBEC

Montreal
- Notre Dame Works
- St. Henry Works

Lachine - Dominion Works
Contrecoeur - McMaster Works

SASKATCHEWAN

Regina - Saskatchewan Steel Fabricators Ltd.

ALBERTA

Edmonton - Premier Works
Camrose - Camrose Works

SUBSIDIARIES, MINING PROPERTIES AND ASSOCIATED COMPANIES

SUBSIDIARY COMPANIES – WHOLLY OWNED
(Consolidated in Financial Statements)

Page-Hersey Tubes, Limited, Welland, Ont.
Welland Tubes Limited, Welland, Ont.
Camrose Tubes Limited, Camrose, Alta.
Premier Steel Mills Ltd., Edmonton, Alta.
Saskatchewan Steel Fabricators Ltd., Regina, Sask.
The Canadian Drawn Steel Company, Limited, Hamilton, Ont.
Frost Steel and Wire Company, Limited, Hamilton, Ont.
Frost Steel and Wire Company Quebec, Limited, Montreal, Que.
Chemical Lime Limited, Ingersoll, Ont.
Stelco Coal Company, Pittsburgh, Pa.
Pikeville Coal Co., Louisville, Ky.
Stelco Nederland N.V., Amsterdam, The Netherlands
Stelco S.A., Geneva, Switzerland
The Steel Company of Canada (U.K.), Limited, London, England

MINING PROPERTIES
(Ownership interest consolidated in Financial Statements)

	% Owned
The Hilton Mines, Que.	50.0
Wabush Mines, Nfld. and Que.	25.6
Chisholm Mine, Ky.	100.0
The Griffith Mine, Ont.	100.0

ASSOCIATED COMPANIES
(Included in Investments in Associated Companies in Financial Statements)

	% Owned
Baycoat Limited, Ont.	50.0
Arnaud Railway Company, Que.	25.6
Knoll Lake Minerals Limited, Nfld.	14.8
Wabush Lake Railway Company, Limited, Nfld.	25.6
Northern Airport Limited, Nfld.	12.8
Northern Land Company Limited, Nfld.	12.8
Twin Falls Power Corporation, Limited, Nfld.	5.6
The Balkan Mining Company, Minn.	33.3
Erie Mining Company, Minn.	10.0
Ontario Iron Company, Minn.	10.0
Mathies Coal Company, Pa.	13.3
Olga Coal Company, W. Va.	10.0

STELCO

PRINCIPAL PRODUCTS

PLATE
Up to 140" in width.

HOT ROLLED AND COLD ROLLED SHEET
In sheets, coils or strip.

GALVANIZED SHEET
Standard or "Colourbond", in sheets, coils or strip.

PREPAINTED SHEET
"Stelcolour", prefinished in colours, patterns, and simulated textures.

TIN PLATE
Electrolytic, hot dip, and black, in sheets and coils.

WIRE RODS

HOT ROLLED AND COLD FINISHED BARS
Alloy, carbon, leaded; in standard and special sections.

CONSTRUCTION MATERIALS
Reinforcing bars, welded wire fabric, prestressed concrete wire and strand.

FASTENERS AND FORGINGS
Bolt and screw products, standard and special, track fasteners and pole line hardware. Standard and custom forgings in light and medium weights.

PIPE AND TUBING
Stretch-reduced continuousweld steel pipe, electric-resistance welded steel pipe, submerged arc welded steel pipe, electricweld mechanical and pressure steel tubing, hot and cold formed hollow structural sections, oil country tubular products, piling pipe, waterworks pipe, hot finished or cold drawn seamless steel pipe and tubing, nipples and couplings.

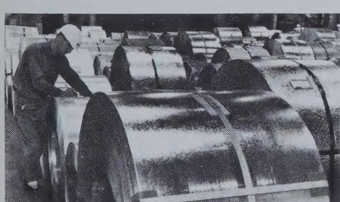
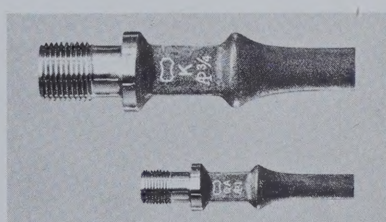
MANUFACTURERS' WIRE
Wire and strand, in a full range of sizes, grades, finishes, coil weights and cut lengths.

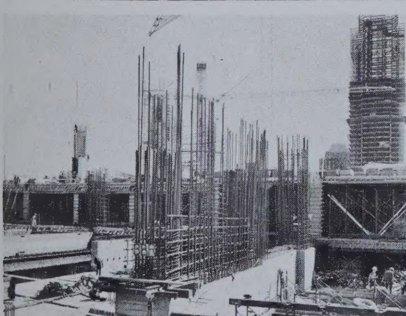
MERCHANT WIRE PRODUCTS
Nails, fencing and barbed wire.

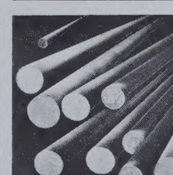
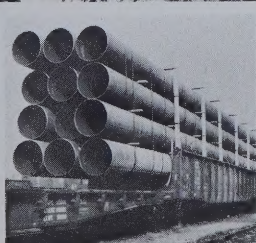
FENCE
Industrial, institutional and residential.

SPECIAL PRODUCTS
Grinding balls, grinding rods, sucker rods, and grader blades.

CHEMICALS, ETC.
Coal tar, light oil, ammonium sulphate, lime and limestone.



STELCO THE STEEL COMPANY OF CANADA, LIMITED, HAMILTON, ONTARIO, CANADA